

This week in the Legislature

An update from State Senator Robert Garton



INDIANAPOLIS – Despite the best of intentions and hours of work by its Senate sponsors, I could not support House Bill 1004, the measure dealing with tax restructuring, Feb. 28 when it was called for a vote.

Sponsored by Sen. Lawrence Borst, chairman of the Senate Finance Committee, HB 1004 restructures state and local taxes for individuals and businesses. The bill reduces the reliance upon local property taxes by eliminating the school general fund property tax, which makes up about 30 percent of the average Indiana property tax bill. Other property tax breaks for homeowners also are contained in the measure.

To replace the lost revenue for schools and local governments from the property tax cuts, HB 1004 raises the state sales tax from 5 percent to 6 percent and raises the individual income tax from 3.4 percent to 3.6 percent.

For business, the bill eliminates 75 percent of the inventory tax paid by farm and business owners, eliminates some state business taxes, and 75 percent of the business personal property tax. In exchange for the tax cuts, business would be assessed a payroll tax of 0.75 percent and a business supplemental tax of 1 percent of a business's adjusted gross income.

The bill also raises the cigarette tax from 15.5 cents-per-pack to 55 cents-per-pack, increases the wagering tax paid by riverboat casinos, and adds \$1 to the riverboat admission fee.

Indiana is facing three critical issues: job development in an economy which is evolving from heavy industry to high technology, the looming reassessment of property based on court-ordered market value principles and a state budget shortfall. The House version of HB 1004 attempted to deal with all three issues, while the Senate version tackled the first two.

In my opinion, too many questions remain unanswered and time is too limited in this year's "short session" to enact such sweeping, permanent and untested changes in state tax policy. Most Indiana citizens have not had the time needed to digest the far-reaching impact of these changes.

Many Hoosiers have joined the "no new taxes" chorus. Some see the current attempts to "restructure" taxes as a ruse for raising taxes to cover excessive state spending, particularly in light of a state budget surplus of nearly \$2 billion which seemed to disappear overnight.

To his credit, Sen. Borst made certain that the bill he brought before the Senate dealt only with economic development and tax restructuring. The Senate version of HB 1004 does not contain a budget bail-out. The '01-'03 state budget can be managed without cuts in education, vital health care or other critical services, notwithstanding the governor's threats to the contrary.

Another concern I have with the bill is that the midst of an economic recession is the wrong time to raise taxes, even if other taxes are cut at the same time. The higher income tax and sales tax contained in HB 1004 not only make it more difficult for already-squeezed family budgets, but also have the potential to further deplete consumer buying power.

Further, predictions on the effects of the property reassessment are just that – predictions. No one knows for certain what reassessment will do to property tax bills in 2003. Most county assessors do not yet have the guidelines they need from the state Department of Local Government Finance (formerly known as the State Tax Board) to assign property values. When that process is complete, probably in early 2003, tax rates will be established. Finally, the tax bill for each piece of property will be calculated.

Trying to second-guess the outcome of reassessment ahead of time is perilous. The 2003 Legislature will have the facts needed, and also additional time during the upcoming "long session," to deal with this issue properly.

I do not oppose tax restructuring. However, I believe a plan adopted by the Legislature in 2003 will be fairer and more thorough, given time for Hoosiers to review the various proposals and provide their elected leaders with opinions and suggestions for improvements.

Questions or concerns on pending legislation? Contact your Senator!

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